



November 16, 1998

## **EXECUTIVE SUMMARY**

SBC and Ameritech have met their burden of demonstrating that their merger is in the public interest. The Commission should grant the pending transfer of control Applications promptly and unconditionally.

The Applicants have made a public interest showing of unprecedented scope and detail. The Applications contain a thorough, detailed narrative Public Interest Statement that is supported by a dozen sworn affidavits from senior officers of the Applicants and numerous leading economists, and by a wealth of additional data.

The responses to those Applications consist principally of petitions and comments filed by the Applicants' actual or potential competitors. These responses fail to undermine our showing: that the Applicants are well qualified; that the merger is necessary to enable the Applicants to implement their National-Local and global competitive strategy; that this strategy will serve both business and residential customers; that this merger also will produce measurable efficiencies and synergies; and that it will ignite competition nationwide and around the globe, thereby achieving one of the principal goals of the 1996 Act.

In this opposition to the petitions to deny and reply to the comments that have been filed in this proceeding (hereafter "Reply"), the Applicants address the issues our competitors and others have raised, many of which have nothing to do with this merger.

The introductory section reviews the market forces behind the merger, why the Applicants decided to merge, why the merger is necessary, and the benefits the merger will produce for competition and for all types of consumers.

The second section answers our competitors' suggestions that SBC/Ameritech is not seriously committed to its National-Local and global strategy and that the merger will not result

in numerous synergies and efficiencies. This section reaffirms SBC/Ameritech's commitment to that strategy and explains why the strategy could not be implemented without the merger. This section also reviews the merger-specific efficiencies and synergies. As we have demonstrated, even if the procompetitive and other benefits of the merger and the Applicants' National-Local and global strategy were only realized outside our region — and the in-region effects were neutral — it would be in the public interest to approve the merger and thereby enable this strategy to be implemented. However, the benefits of this merger will not be limited to the areas outside of the combined company's current service area, and they will not be confined to large businesses.

The third section discusses specific competition-related issues and answers our opponents' claims that the merger would reduce potential competition, adversely affect the Commission's regulatory tools, lead to discrimination against other carriers, or have other adverse competitive effects.

The last two sections review why the Commission should not impose conditions on the merger, why no evidentiary hearing is needed, and why the merger should be approved.

Finally, this Reply includes two sets of attachments. These consist of eight sworn affidavits of company officials, economists and others, and two closing appendices. The closing appendices address certain allegations regarding SBC and Ameritech that have been raised in the petitions and comments but which, in general, are unrelated to this merger or are the subject of other proceedings before this Commission, the States or other forums.

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ATTACHMENTS:

Reply Affidavit of James S. Kahan  
 Reply Affidavit of Martin A. Kaplan  
 Reply Affidavit of William C. Deere  
 Reply Affidavit of Dennis W. Carlton  
 Reply Affidavit of Richard J. Gilbert and Robert G. Harris  
 Reply Affidavit of Jack B. Grubman  
 Reply Affidavit of Henry M. Rivera  
 Reply Affidavit of Richard Schmalensee and William Taylor  
 Appendix A: Ameritech's Response to Specific Allegations  
 Appendix B: SBC's Response to Specific Allegations

*Before the*  
**FEDERAL COMMUNICATIONS COMMISSION**  
**Washington, D.C. 20554**

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In the Matter of Applications  
for Consent to the Transfer  
of Control of Licenses and  
Section 214 Authorizations from

AMERITECH CORPORATION,  
Transferor

to

SBC COMMUNICATIONS INC.,  
Transferee

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CC Docket No. 98-141

**JOINT OPPOSITION OF SBC COMMUNICATIONS INC. AND AMERITECH  
CORPORATION TO PETITIONS TO DENY AND REPLY TO COMMENTS**

Pursuant to the July 30, 1998 Public Notice, SBC Communications Inc. ("SBC") and Ameritech Corporation ("Ameritech") (jointly, the "Applicants") hereby submit this Joint Opposition and Reply ("Reply") to the petitions to deny and comments filed in this proceeding.<sup>1</sup>

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<sup>1</sup> In this Reply, we have cited a particular party's petition or comments by identifying the name of the party and the page number we are citing to (e.g., "AT&T at 5"). The affidavits accompanying this Reply have been cited by the name of the affiant, followed by the word "Reply" and the paragraph number we are citing to (e.g., "Kahan Reply Aff. ¶ 4"), in order to distinguish them from the affidavits which accompanied the Public Interest Statement submitted with the Applicants' transfer of control Applications. Those original affidavits are simply cited as, for example, "Kahan Aff. ¶ 3."



## **I. INTRODUCTION**

### **A. The Telecommunications Marketplace Is Changing Rapidly And Fundamentally**

In the decade following passage of the 1996 Act, telecommunications markets will grow more, and change more profoundly, than they did in the century that preceded it. These changes are being propelled by: (1) fundamental shifts in regulation, (2) dramatic advances in technology, (3) the globalization of all major markets, (4) increasingly strong economies of scope and scale and (5) the rapid evolution of customer demand for seamless, bundled, end-to-end service. This merger is a logical, necessary and pro-competitive response to these irreversible and widely recognized trends.

Our major competitors, actual and prospective, would understandably prefer to block us from reacting to these industry-transforming trends, even as they themselves are responding to these trends vigorously in the marketplace. Accordingly, they ignore, downplay or deny indisputable market realities in the comments and petitions they have filed with the Commission. But what they are telling market analysts, shareholders and customers is precisely the same as what we are telling the Commission: the market is changing fast and fundamentally, and, to remain competitive, major players must grow and reach outward aggressively into new markets. Yesterday's ways of doing business cannot endure.

Deregulation. Across the United States and in much of the rest of the world, the exclusive franchise has disappeared. The 1996 Act and state law changes ended that franchise here; most of the rest of the world is doing the same, by way of the WTO Agreement, the deregulatory initiatives of the European Commission and its member nations, and parallel initiatives in Asia and South America.

Technology. Data and wireless networks have risen from nowhere to bid for commanding positions in the marketplace. Formerly separate media and industries are converging rapidly. Supply and demand for digital bandwidth are doubling every few years. The Internet alone is a phenomenon whose full implications we have scarcely begun to grasp.

Globalization. On both the supply and the demand side, telecommunications is fast becoming a global marketplace. The major emerging providers will operate networks that span the globe. Their major customers will build cars, fly planes, operate banks and sell insurance on a comparable scale. Major U.S. corporations will either meet the globalization challenge successfully or surrender their competitive positions to others that meet it better.<sup>2</sup>

Economies of Scale and Scope. Network industries have always been characterized by powerful economies of scale and scope. Those economies are growing stronger as the infrastructure of telecommunications networks becomes ever more dependent on computer technology, software and the overall management of technical know-how and marketing knowledge.

Customer Demand. Customers, both large and small, are well aware of the new possibilities: the industry is thus changing just as fundamentally on the demand side. To begin with, demand is growing at double and triple-digit rates. The growth is coming principally from large and mid-size corporate customers, which are knitting together national and global businesses with digital networks.<sup>3</sup> It is also coming from small business and residential users, who are piling new hours of data and wireless usage on top of their traditional, much more

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<sup>2</sup> See Vice President Gore, Remarks to TransAtlantic Business Dialog (Nov. 7, 1998) available at LEXIS, Legis Library, Curnws File.

<sup>3</sup> See Gilbert/Harris Reply Aff. ¶¶ 6, 37-42.

modest demand for landline voice services. Customers of every size are now seeking bundled services and single-source providers.<sup>4</sup>

Judging from their actions in the marketplace, our major competitors see these trends exactly as we do, and are responding to them exactly as we are. The MCI/WorldCom/MFS/Brooks Fiber/UUNet conglomerate just completed its fourth major acquisition in less than three years. In multi-page advertisements that have run across the nation and worldwide, that company declares that it now stands alone in its ability to offer a fully-integrated, end-to-end package of services over a single global network.<sup>5</sup> AT&T, which is following up its acquisitions of McCaw and TCG with the acquisition of TCI and Vanguard Cellular, has recently announced a joint venture with BT, through which it plans to market

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<sup>4</sup> See Public Interest Statement at 14; Kahan Aff. ¶ 30; Carlton Aff. ¶ 12; Schmalensee/Taylor Aff. ¶ 14; Kahan Reply Aff. ¶¶ 14-20; Carlton Reply Aff. ¶ 16; Grubman Reply Aff. ¶ 2. Numerous large corporate customers have submitted comments in this proceeding attesting to the demand for this type of service and supporting this merger as a means of satisfying that demand. For example, Shell Oil, which has been a major customer of SBC for years and has even participated in trials for new services, stated that it "did not even consider SBC in its most recent solicitation of bids . . . because of SBC's inability to provide service in certain areas of the United States." Letter of Shell Oil Co. See also Letters filed by Abbott Labs, Allegiance Healthcare Corp., Amoco Production Co., Bank One, ComEd, Compaq, Dresser, Edward Jones, Emerson Electric Company, Huntington Banks, Levi Strauss & Co., Travelers Group, Ultramar Diamond Shamrock and the University of Illinois.

<sup>5</sup> See, e.g., MCI WorldCom two-page advertisement, Wall St. J., Nov. 5, 1998, at B-18-B-19 ("One wholly owned global network. Voilà! One seamless global network. Only one company has it. MCI WorldCom.") (emphasis added) ("MCI WorldCom two-page advertisement"); MCI WorldCom 12-page advertising supplement, Wall St. J., Oct. 1, 1998, at R1-R12 (Kahan Reply Aff., Ex. 1).

In its advertisements, MCI WorldCom answers the question of "How do we do this?" by saying "Simple. By building hundreds of . . . networks." MCI WorldCom two-page advertisement. The real answer, of course, is that this was accomplished by a succession of mergers, each of which was approved by this Commission. In addition, in saying that it can serve everyone, everywhere, MCI WorldCom concedes that this includes the states served by SBC and Ameritech. See also Gilbert/Harris Reply Aff. ¶ 7.

aggressively BT's Concert service,<sup>6</sup> and is reported to be in active negotiations with Time Warner and other U.S. cable companies.<sup>7</sup> Already in control of over 75% of the long distance presubscribed access lines, AT&T and MCI WorldCom now boast to both analysts and customers that their local networks serve 90-100 or more cities and can reach 70-90% of all business subscriber lines.<sup>8</sup> Sprint has forged an alliance with France Telecom and Deutsche Telekom and is poised to roll out its new "ION" service nationwide. Bell Atlantic is seeking to merge with GTE.<sup>9</sup> And Teligent, with substantial backing from Nippon Telephone & Telegraph, has launched service in 10 major cities throughout the country, with many more to follow.<sup>10</sup>

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<sup>6</sup> See Rebecca Blumenstein, AT&T Plans to Agressively Market BT's Concert Communications Service, Wall St. J., Nov. 11, 1988, at B16 (noting also, "Observers say the move is long overdue for AT&T, which has seen its growth in the international business market slow as other global alliances it formed failed to meet expectations. 'They have already ceded a lot.' . . . Today's expected announcement underscores AT&T's intention to compete vigorously against the newly combined MCI WorldCom Inc. Just days after the merger was finalized, MCI WorldCom announced an ambitious initiative to serve international business customers on its own network, called On-Net.").

<sup>7</sup> Leslie Cauley, AT&T Chairman Presses Cable Firms on Phone Venture, Wall St. J., Nov. 3, 1998, at B19.

<sup>8</sup> See, e.g., Grubman Reply Aff. ¶ 3.

<sup>9</sup> See Carlton Reply Aff. ¶¶ 43-44. The current market capitalization of these entities is comparable to or exceeds that of SBC and Ameritech. AT&T/TCG/TCI/BT has a market capitalization of approximately \$211 billion, MCI WorldCom stands at \$98 billion and Sprint/France Telekom/Deutsche Telekom stands at \$177 billion. By comparison, a combined SBC/Ameritech would have a market capitalization of \$145 billion. Bloomberg, Nov. 11, 1998.

<sup>10</sup> See Teligent Press Release, Teligent Launches Service in First Ten Markets, Vows to Start a Communications Revolution (Oct. 27, 1998), available at <[http://www.teligent.com/templates/temp\\_pressrel.asp?content\\_id=165](http://www.teligent.com/templates/temp_pressrel.asp?content_id=165)> (visited Nov. 13, 1998). Teligent has announced that businesses can now receive "One flat monthly payment. One online bill. Local. Long distance. Internet. All for up to 30% off." Teligent full-page advertisement, Wash. Post, Nov. 10, 1998, at C5.

**B. The SBC/Ameritech Merger Is A Response To These Changes**

SBC and Ameritech's decision to join forces in order to be able to pursue their National-Local and global strategy responds to the same forces that are reshaping every major player in the industry. In our business judgment, the best interests of our customers, employees and shareholders cannot be advanced, cannot even be protected, by a strategy of trying to stand still as a stay-at-home regional player. The new SBC is committed to offer facilities-based competition for both business and residential customers in 30 of the largest MSAs in the country outside of their existing service areas.

Our National-Local and global strategy commits SBC and Ameritech to expand quickly into these new markets. Since filing the transfer of control Applications, we have accelerated our planned schedule for doing so, impelled by the fast-evolving capabilities and announced expansion plans of MCI WorldCom, AT&T/TCI and Bell Atlantic/GTE, and by the increasingly urgent demands of our customers. SBC's plans currently contemplate installing facilities in most of these new markets within 1½ years of closing, and fiber within 2 years, much faster than we planned only a few months ago.<sup>11</sup> Key high-level employees have already been assigned to oversee the plan.<sup>12</sup> And we are now considering adding markets in addition to the first 30.<sup>13</sup>

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<sup>11</sup> See Kahan Reply Aff. ¶ 22. Obviously, this accelerated roll-out will result in consumers realizing the procompetitive effects of the merger more quickly. See Carlton Reply Aff. ¶¶ 39-42.

<sup>12</sup> See Kahan Reply Aff. ¶¶ 24-25. SBC recently announced the appointment of Stephen Carter, who has been in charge of serving wholesale customers and interconnection throughout SBC's region, as the senior executive in charge of implementing the National-Local Strategy. His extensive experience with interconnection should be invaluable as SBC becomes a CLEC. Mr. Carter and his team are actively engaged in numerous activities to plan for the implementation of the National-Local Strategy. *Id.* ¶ 25.

<sup>13</sup> See Kahan Reply Aff. ¶ 23.

The new SBC is equally committed to install facilities in major international markets, in pursuit of the business of multinational corporations. These investments will make it easier for U.S. companies to link up with their foreign facilities, as well as with customers and suppliers in foreign countries. Only a small number of competitors are likely to emerge with the capabilities to serve this global market. As we have noted, MCI WorldCom currently claims to serve it alone. The new SBC is committed to join it, and thus to increase competition in the provision of services critical to the global prosperity of American business.

Our competitors inform the Commission that SBC and Ameritech do not need to merge to do all of this, that each company could implement a comparable plan on its own. Their vigorous efforts to expand and restructure their own businesses demonstrate otherwise. Standing alone, neither SBC nor Ameritech has the personnel, the customer base or the revenue stream to implement a competitive strategy of this scope and scale. Standing alone, neither company could incur the risk and earnings dilution that such a massive expansion entails. Each of MCI, WorldCom, MFS, Brooks Fiber, AT&T, McCaw, Teleport, TCI, Sprint, France Telecom, Deutsche Telekom, Bell Atlantic, GTE and others are not going it alone. Mergers and global alliances make companies larger, but the competitive challenges are growing even faster. As our competitors all know, it is not possible to be a viable competitor in national and global markets by building out in small, modest increments over an extended period of time. The critical base of customers with national and global operations will not give their business to providers who offer service in just a few markets, with a promise of more to come at some distant date down the road.<sup>14</sup>

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<sup>14</sup> See Kahan Reply Aff. ¶ 21; Gilbert/Harris Reply Aff. ¶¶ 58-60.

**C. The Benefits Of The Merger Are Enormous And Have Been Proven**

Out-of-Region. There can be no doubt that SBC/Ameritech's National-Local and global strategy will advance the public interest in 30 major domestic markets outside the 13 states that the two companies currently serve and in numerous foreign markets.<sup>15</sup> The arrival of a robust, committed new competitor will stimulate the market-opening process. It will offer both business and residential customers a significant, new, facilities-based competitive choice for a fully-integrated package of services. If this competition reduces local service rates in the 30 markets by even one percent, small businesses and residential households alone would save approximately \$118 million annually, with over half of that savings being realized by residential customers.<sup>16</sup> The merger will make the long distance market and the market for bundled services more competitive as well. And it will establish a strong, new U.S.-based international carrier. These benefits alone are fully sufficient to establish that the merger is in the public interest.

A number of our opponents — our competitors notably among them — complain that the National-Local Strategy focuses too much on large business customers.<sup>17</sup> Yet if there is one thing that clearly distinguishes our competitive plans from those of most of our opponents, it is our balanced commitment to pursue mass market customers as well as large and mid-size businesses.<sup>18</sup> SBC and Ameritech have determined they can profitably serve residential and

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<sup>15</sup> See Carlton Reply Aff. ¶¶ 57-59 (describing how a new participant can have a strong procompetitive impact in the emerging market for nationwide bundled services and can result in significant consumer benefits).

<sup>16</sup> Carlton Reply Aff. ¶ 58 n.53.

<sup>17</sup> See AT&T at 36; Consumer Coalition, Baldwin & Golding Aff. ¶ 12; Sprint, Besen Decl. at 17, Hayes Decl. at 24; McLeodUSA at 4; CoreComm Newco at 12-14; Focal Communications at 11; Hyperion Telecomm. at 7-8; Level 3 Communications at 5. But see Citizens for a Sound Economy Foundation at 25-27; Communications Workers of America at 4.

<sup>18</sup> See Public Interest Statement at 15-16, 21-22.

small-business customers<sup>19</sup> alongside the anchor tenants, the large and mid-size business customers. Our recent research reveals that a significant percentage of residential and small business customers are within reach of the first out-of-region offices that the merged company plans to equip with switches and fiber.<sup>20</sup> Building these offices will give the new SBC direct access to a large base of residential and small business customers. Unlike our major competitors, we have learned how to provide innovative, low-cost services to all customers, including low-income households. Our National-Local Strategy commits us to doing so. We will deploy 60 switches to serve large and mid-size businesses; we will deploy an additional 80 switches to serve the mass market.<sup>21</sup> We are committed to offering service to a majority of the mass-market customer segment. SBC's research shows that the percentage of "high-use" customers does not vary much across income levels.<sup>22</sup> We aim to capture approximately 4 percent of this segment of the market within just a few years.<sup>23</sup>

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<sup>19</sup> While in general the cost of providing basic local residential service on a stand-alone basis exceeds the rates that can be charged for it, Gilbert/Harris Reply Aff. ¶¶ 76-77, the Applicants have determined they can profitably serve out-of-region residential customers through bundled packages. See Kahan Reply Aff. ¶¶ 29-33; Carlton Aff. ¶ 9; Gilbert/Harris Reply Aff. ¶ 74. In fact, small business and residential services contribute 33 percent of the revenue the National-Local Strategy is expected to generate by its fifth year and contribute 22 percent of the estimated value of the plan. See Carlton Reply Aff. ¶ 83 n.72.

<sup>20</sup> See Kahan Reply Aff. ¶¶ 29-33; Notice of Ex Parte Presentation from Wayne Watts, General Attorney and Assistant General Counsel, SBC Communications Inc., to Magalie Roman Salas, Secretary, Federal Communications Commission (October 6, 1998) ("SBC October 6, 1998, Ex Parte Letter").

<sup>21</sup> Public Interest Statement at 15-16.

<sup>22</sup> See Kahan Reply Aff. ¶¶ 30-31. For example, as that affidavit reveals, 17.1% of households with incomes in the range of \$15,000 to \$24,999 are "high-users," while 18.9% of the households with incomes of \$100,000 to \$119,999 are "high-users" (i.e., households that spend over \$48/month).

<sup>23</sup> See Public Interest Statement at 15-16; Kahan Aff. ¶ 63. This projection represents only the Applicants' share of the newly competitive local exchange market for residential and small

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For example, Attachments 12 and 13 to the Kahan Reply Affidavit consist of maps that show representative plans for our entry into the Washington, D.C. and Tampa, Florida markets. The maps show the locations of large business customers to be targeted, the planned and existing facilities to be used, and the areas where mass market customers, including both low-income and minority households, are concentrated. The new SBC is firmly committed, and strongly motivated, to provide service, including innovative new products and services, to residential customers at all income levels.<sup>24</sup>

Ours was thus the first viable, publicly announced commitment to provide facilities-based competitive service to residential customers on a broad scale out-of-region. We are not the ones who are focusing our efforts on large business customers — that is the business strategy of our main competitors.<sup>25</sup>

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business customers. Other new competitors, particularly the IXC's, are also expected to gain substantial market share at the expense of the ILEC's.

<sup>24</sup> Since the new SBC will have both the incentive and the ability to serve low-income households, concerns about "red-lining," see Edgemont Neighborhood Coalition at 3-5, are misplaced.

<sup>25</sup> See Public Interest Statement at 20; Carlton Aff. ¶ 36. For example, MCI WorldCom's advertising concentrates on its large business offerings. See, e.g., MCI WorldCom 12-page advertising supplement, Wall St. J., Oct. 1, 1998, at R1-R12 (Kahan Reply Aff. Ex. 1). ("We can handle more than half of American business's local calling needs in the U.S. alone." "MCI WorldCom's network lets global businesses have one company for all their voice and data services, wherever they do business."). Likewise, AT&T's joint venture with BT and its merger with TCG both reflect its focus on large business customers. See AT&T/BT Press Release, AT&T and BT to Form \$10 Billion Global Venture to Serve Customers Around the World (July 26, 1998), available at <<http://www.att-bt-globalventure.com/news/index.html>> (visited Oct. 13, 1998) (describing how two of three business units will exclusively serve multinational businesses while the third will develop and manage the carriers' international correspondent relationships for business and residential customers alike). Likewise, press releases recently issued by Hyperion Telecommunications (along with MediaOne) and Level 3 Communications illustrate those companies' focus on business customers. See Hyperion Communications Press Release, Hyperion Communications to Acquire Business Telephony Interests in Jacksonville and

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In-region. As evidenced by the many congressional letters filed in this docket,<sup>26</sup> this merger will also advance the public interest in-region. And in-region, too, residential customers will be numbered among the most important beneficiaries.

To begin with, the merger will enhance our ability to innovate, compete and improve our products and service in the 13 states SBC and Ameritech already serve. In-region local customers will enjoy the benefits of the numerous synergies and efficiencies that the merger will cause. By unifying procurement for both their wireline and wireless operations, SBC and Ameritech will be able to buy and deploy new equipment at lower cost. We will realize significant economies by consolidating operations: marketing, new product development, advertising, research and development teams and real estate management. The merger will enhance our joint ability to develop and quickly bring to market new products and services.<sup>27</sup>

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Richmond From MediaOne (Nov. 4, 1998), available at Westlaw, 11/4/98 PR Newswire 21:14:00 (“Hyperion can focus on its core competencies in the business arena.”); Level 3 Communications Press Release, Level 3 Communications Launches San Francisco Facility: Level 3 Expects to Have Operations in 12-15 Cities by Year-End (Oct. 26, 1998), available at <[http://biz.yahoo.com/prnews/981026/co\\_level\\_3\\_2.html](http://biz.yahoo.com/prnews/981026/co_level_3_2.html)> (visited Oct. 29, 1998) (“Level 3 has announced it will construct local city networks directly serving businesses in 25 U.S. cities within the next three years.”); Teligent full-page advertisement, Wash. Post, Nov. 10, 1998, at C5 (“Teligent is changing the way you manage your company’s communications expenses forever.” While Teligent says it will also serve “small and mid-sized companies,” there is no reference to residential customers.) (emphasis added).

<sup>26</sup> See Letters by Reps. Jesse Jackson, Jr., Bobby Rush, John Shimkus, Rob Blagojevich, Jerry Weller, Tom Ewing, Danny Davis, John Porter and Ray LaHood of Illinois; Reps. Lee Hamilton and Edward Pease of Indiana; Rep. Jim Barcia of Michigan; and Reps. Paul Gillmor, John Boehner, Tom Sawyer, Steven LaTourette, Michael Oxley, Ted Strickland and Bob Ney of Ohio.

<sup>27</sup> For example, when PacBell announced the deployment of ADSL in California, State Senator Steve Peace explained:

I applaud Pacific Bell’s commitment to accelerate deployment of this advanced telecommunications infrastructure on behalf of California businesses and consumers . . . This is truly the technology that California needs to remain competitive in the 21st

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For example, based on the SBC/Telesis experience, consumers can expect greater network reliability, improved access to service representatives, accelerated repair intervals, broader channels to purchase services and accelerated product introduction schedules.<sup>28</sup> We will implement the best ideas and practices throughout the company.

Most importantly, our National-Local Strategy will allow us to compete to keep a base of large and mid-size business users on our in-region networks. It is critical for us to be able to compete for these customers who are responsible for a very large and disproportionate share of telecommunications revenues.<sup>29</sup> We are, and will be, able to provide low-cost, universal service to residential users over state-of-the-art networks only to the extent those networks continue to be shared with anchor business tenants. If we fail to implement our National-Local and global strategy, our anchor tenants will fall away, year by year, leaving our small business and residential users to shoulder the high fixed costs of maintaining and upgrading our networks on their own. Such an outcome is plainly contrary to the public interest and inimical to this country's long-standing national policy to spread network costs and promote affordable service

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century, for it has social, educational and business applications that benefit each and every one of us.

See SBC Press Release, SBC Communications Announces Broad ADSL Deployment Across California (May 27, 1998) available at <[http://www.sbc.com/News/Article.html?query\\_type=article&query=19980527-02](http://www.sbc.com/News/Article.html?query_type=article&query=19980527-02)> (visited Nov. 4, 1998).

<sup>28</sup> Kaplan Reply Aff. passim.

<sup>29</sup> See Grubman Reply Aff. ¶ 5; Kahan Aff. ¶¶ 13-15 (the top 1 percent of business customers of Southwestern Bell Telephone Co. ("SWBT") generate 18 percent of SWBT's revenues — revenues which are used to cover the common costs of the networks used by the remaining 99 percent of SWBT's customers). The concerns expressed by the Michigan Consumer Federation and Parkview Areawide Seniors are therefore misplaced. Residential customers will benefit, not suffer, from the merger, even if it does not result in a rate reduction in the Ameritech states. See Michigan Consumer Federation at 7, 11; Parkview Areawide Seniors ¶ 4.

to mass market customers. Implementing our strategy will allow us to continue to fulfill that policy by enabling us to compete more effectively to keep a share of large and mid-size users on our networks.

Jobs. Job creation is an additional significant public benefit of the merger.<sup>30</sup> In-region and out, the merger will permit us to create thousands of new, high-quality and well-paid jobs — which is why the largest union of telecommunications workers in the country strongly supports this merger.<sup>31</sup> And the competitive impacts of the merger will have positive effects across the economy. A recent study for the California Manufacturers' Association, for example, predicted

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<sup>30</sup> Again, as comments submitted by Members of Congress attest, job creation — such as the over 2000 new jobs created in California by the SBC/Telesis merger — is a significant public benefit. See note 26 above. In his May 10, 1998 letter to Ameritech Chairman Notebaert, SBC Chairman Whitacre, with the full support of SBC's Board of Directors, made various commitments regarding actions to be taken by the new SBC following the merger. Among other things, such as maintaining Ameritech's charitable contributions, community activities and support for economic development and education, Mr. Whitacre pledged that the new SBC will insure that, as a result of the merger, employment levels in [Ameritech's] five state region will not be reduced due to this transaction and, in fact, as we discussed this transaction is based on growth and we fully expect employment levels to increase as a result of the merger.

<sup>31</sup> Communications Workers of America at 6-10. ("The emphasis on job-growth and business expansion in the SBC/Ameritech merger contrasts vividly with so many other mergers which focus on . . . firing workers.") Other supporting comments have also focused on job creation. See Letters filed by the NAACP Illinois State Conference of Branches, the NAACP Indiana State Conference, the Indianapolis Urban League, the Indiana Chamber of Commerce, the Ohio Conference of NAACP Branches, the Cleveland Branch of the NAACP, the Wisconsin Economic Development Ass'n, Inc., the Wisconsin State NAACP Conference of Branches, the Milwaukee Urban League, Forward Wisconsin, the National Association of Commissions for Women, the League of United Latin American Citizens and the National Latino Telecommunications Task Force.

that "640,000 new jobs and an increase of more than \$200 billion in gross state output by 2001" will result from the broad deployment of services such as PacBell's ADSL.<sup>32</sup>

New Competitive Entry in the SBC/Ameritech Territory. We fully expect that our out-of-region expansion will ignite competition for both business and residential customers within our region. By their actions, if not their words in this proceeding, our competitors have already confirmed that it will. Our out-of-region expansion will put the combined company in head-to-head competition with all major interexchange carriers and incumbent local carriers. These companies will be forced to respond in kind, because they will face the same business peril that SBC and Ameritech now face — the progressive loss of key business customers whose revenues are essential to support the high fixed costs of deploying and upgrading networks.<sup>33</sup> And when we make mass market customers a pillar of our competitive strategy, our competitors will have to follow suit or risk losing that large additional pool of revenue. AT&T/TCI announced their plans to merge soon after we announced ours. Bell Atlantic/GTE followed soon after that. Both companies promptly informed the Commission that through their mergers they would intensify their efforts to compete in SBC's and Ameritech's region.<sup>34</sup>

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<sup>32</sup> See CMA Press Release, CMA Takes Lead in Introduction of High-Speed Internet Technology (May 27, 1998), available at <<http://www.camfg.com/news/may/pr055.html>> (visited Nov. 5, 1998).

<sup>33</sup> Public Interest Statement at 24-25; Kahan Aff. ¶ 86; Carlton Aff. ¶ 10; Schmalensee/Taylor Aff. ¶ 16; Gilbert/Harris Aff. ¶ 28; Carlton Reply Aff. ¶¶ 72-79 (presenting the economic theory that describes the motivations behind such responsive entry and noting that the Bell Atlantic/GTE merger is the first such competitive response).

<sup>34</sup> See In re GTE Corp. and Bell Atlantic Corp. for Consent to Transfer of Control, Application for Transfer of Control, CC 98-184, at 6 (filed Oct. 2, 1998) ("BA/GTE Application for Transfer of Control") ("With its local telephone facilities broadly dispersed throughout the United States, GTE is the 'enabler' that will allow Bell Atlantic to attack other Bell company strongholds across the country."), BA/GTE Application for Transfer of Control, Public Interest Statement at 1-2 (including Los Angeles, San Francisco, San Diego, Dallas-Fort Worth, Houston, Chicago, (Footnote continued on next page)

A Strong National Competitor on the Global Stage. Telecommunications has long been recognized as a strategic asset, essential to U.S. national and international interests. This merger will strongly serve the national interest by adding one more viable U.S. player to the small group of contenders that can seriously aim to compete on a global scale.

The Commission has recognized that large national and transnational business customers occupy a discrete market "of worldwide geographic scope."<sup>35</sup> Companies are emerging to serve this global market. But as the Commission has also found, the market will necessarily be limited to "only a handful of major competitors world-wide."<sup>36</sup> Even the largest telecom companies have demonstrated that "going it alone is not a serious option."<sup>37</sup> Major industry analysts agree

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(Footnote continued from previous page)

Cleveland and Indianapolis as "most attractive" target markets); Statement of Mark J. Mathis, Sr. Vice President Regulatory, Bell Atlantic, before the Public Utilities Commission of Ohio (Nov. 4, 1998) (the Bell Atlantic/GTE merger will result in aggressive competition in Ohio (particularly Cleveland and Cincinnati)); In re Tele-Communications, Inc., AT&T Corp., Application for Authority Pursuant to Section 214 of the Communications Act of 1934, as amended, for Transfer of Control of Authorizations to Provide International Resold Communication Services, CS Docket No. 98-178, at 38-40 (filed Sept. 14, 1998) (describing plans to upgrade TCI's network to provide services that compete with incumbent LECs) ("AT&T/TCI Application for Transfer of Control"). TCI operates cable facilities in each of the 13 states served by SBC and Ameritech.

<sup>35</sup> See In re Merger of MCI Communications Corp. and British Telecomm plc, Memorandum Opinion and Order, 12 FCC Rcd. 15351, ¶ 56 (1997) ("MCI/BT II") (citing In re Request of MCI Communications Corp. and British Telecomm plc, Declaratory Ruling and Order, 9 FCC Rcd. 3960, ¶ 51 n.98 (1994) ("MCI/BT I"); In re Sprint Corp., Declaratory Ruling and Order, 11 FCC Rcd. 1850, ¶ 84 (1996)); see also Gilbert/Harris Reply Aff. ¶ 6.

<sup>36</sup> MCI/BT II ¶¶ 91, 130.

<sup>37</sup> Sir Peter Bonfield, CEO, BT, Speech (July 26, 1998), available at <<http://www.att-bt-globalventure.com/news/bonfield.doc>> (visited Nov. 5, 1998) ("If you want to be a successful player in the global market, going it alone is not a serious option."). See also AT&T and BT, Background to the Venture, available at <<http://www.att-bt-globalventure.com/about/index.html>> (visited Oct. 31, 1998) ("despite the overwhelming range of products and services available in the telecommunications market, no single company is meeting the needs of the most demanding set of customers, namely the Multi-national companies (MNCs) whose business is

(Footnote continued on next page)

with that conclusion.<sup>38</sup> All serious contenders have formed international partnerships in their attempts to serve the global market. By and large, however, partnerships have not worked,<sup>39</sup> providing truly global, seamless services ultimately requires resources and facilities of national and global scope.

The new SBC will rank among the small number of enterprises with the resources, scale and international presence to compete on a truly global scale. And it will certainly be one of the few U.S. companies in this market. The globalization of the new SBC's business will thus

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truly global.”); MCI WorldCom September two-page advertisement, Wall St. J., Sept. 16, 1998, at A12-13 (the benefits MCI WorldCom offers businesses “could only be accomplished by merging WorldCom and MCI.” “No one company could effectively bring together the patchwork of networks and technology.”).

<sup>38</sup> Grubman Reply Aff. ¶ 7 (“[t]he SBC/Ameritech merger is absolutely necessary for the new SBC’s National-Local Strategy”); Guy Woodlief and Michael D. Carruthers, Prudential Securities, SBC Merger with Ameritech Positions SBC to Be a Truly National Player, May 12, 1998 (“We believe successful telecom carriers of the future will necessarily have the ability to provide corporate customers with voice and data services nationally and internationally, and this merger is an important step in that direction for SBC.”); S.M. Passoni, SG Cowen Securities Corp., Telecom — RHCS Offer Compelling Value, Investext Report No. 2606297, at \*5 (July 31, 1998) (“With industry leaders such as WCOM competing on a global basis, the scale and scope of this most recent merger will enable SBC to continue as a key telecom player on a global basis.”); M. Lambert, Merrill Lynch Capital Markets, Sector Comments, Telecommunication: UK, Investext Report No. 2714626 (Aug. 6, 1998) (“The emergence of WorldCom and the BT/AT&T jv . . . pose a threat to other telcos with major or global ambition and the telcos will need to respond to the challenges being laid down.”). See also note 44 below.

<sup>39</sup> For example, the Wall Street Journal recently reported that when Reuters hired GlobalOne to provide a high-speed data network between Paris and Frankfurt, the link did not work because certain equipment on Deutsche Telekom’s network was incompatible with equipment on the French end. G. Naik, AT&T-BT Alliance Faces Bevy of Rivals, Wall St. J., July 28, 1997, at B6. Cable & Wireless has had difficulties in linking the networks of the 34 foreign countries in which it owns an interest; the FCC has noted that this has “complicated” Cable & Wireless’s ability to provide global seamless services. As the FCC notes, Cable and Wireless’s “business units vary greatly with respect to size, structure, and culture, thus complicating the provision of global seamless service.” Federal Communications Commission, International Bureau, Global Communication Alliances Report at 9 (Feb. 1996).

benefit U.S. consumers and workers and will improve national competitiveness across the board. The merger will reduce costs and provide both U.S. consumers and businesses quality end-to-end communications systems, accelerate competition in the global market (in telecom as well as other industries), create jobs, benefit business and further the Commission's policies by, among other things, driving down accounting rates.<sup>40</sup>

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In sum, the competitive implications of the SBC/Ameritech merger must be judged in light of today's and tomorrow's market realities, not yesterday's. Those implications must also be judged in light of the wholesale restructuring of our major competitors, including MCI/WorldCom/MFS/Brooks Fiber/UUNet, AT&T/McCaw/TCG/TCI/Vanguard, Sprint/Deutsche Telekom/France Telecom, Bell Atlantic/GTE and others.

Certainly, the suggestion that this merger might somehow recreate the old Bell System, or even half of it, cannot be squared with actual market trends. Prior to divestiture, the old AT&T served over 80% of all lines and collected 85% of all local exchange revenues throughout the country under a legally exclusive franchise;<sup>41</sup> it controlled approximately 90% of the long-distance market;<sup>42</sup> it had a substantial share of the equipment market; it was characterized by a

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<sup>40</sup> See Public Interest Statement at 27-33; see also Communications from the Commission to the European Parliament, Council, Economic and Social Committee and Committee of the Regions, First Monitoring Report on Universal Service in Telecommunications in the European Union (1998), available at <<http://www.ispo.cec.be/infosoc/telecompolicy/en/unisrvmain.doc>> (visited Nov. 9, 1998) (opening the telecommunications sector had "a direct impact on growth, job creation and competitiveness in the whole of the economy whilst at the same time securing and advancing the interests of citizens in every part of the Union.").

<sup>41</sup> United States v. American Telephone and Telegraph Co., 524 F. Supp. 1336, 1347 n.33 (D.D.C. 1981).

<sup>42</sup> Federal Communications Commission, Common Carrier Bureau, Industry Analysis Division, Long Distance Market Shares: Second Quarter 1998 at 11 (Sept. 1998).



century of closed networks, closed interfaces and bundled services — all with official government protection behind it. SBC/Ameritech, by contrast, will serve substantially fewer local access lines nationwide. The company's franchise will not be exclusive at all. Its local networks will be unbundled pursuant to new, detailed and pro-competitive statutory standards. The new SBC will compete directly against other large incumbent LECs out-of-region, particularly Bell Atlantic/GTE, which has likewise announced aggressive plans to compete in our markets.<sup>43</sup> SBC/Ameritech will not be in manufacturing. It will square off against a burgeoning wireless industry and a reinvented, digital cable industry. It will compete in global markets against larger global competitors, all of whom will be scrambling to deploy all-new digital technology at enormous expense. In the market now emerging, virtually every consumer will have a choice of at least 4 to 6 major carriers that offer a full range of wireline and wireless, local and long distance voice, data and other services, nationally and worldwide. The old Bell Systems cannot possibly reemerge from this competitive market.

For these reasons, the Commission should embrace this merger and, promptly and unconditionally, grant the transfer of control applications so that customers, not regulators, will pick the winners and losers in this new marketplace.

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<sup>43</sup> For this reason in particular, any suggestion that the SBC/Ameritech and Bell Atlantic/GTE mergers will simply create AT&T West and AT&T East, neither competing against the other, is unfounded. These mergers will intensify, not diminish, BOC against BOC competition. SBC/Ameritech's 30 market plan includes a number of markets in the Bell Atlantic/GTE territories. Bell Atlantic/GTE has promised similar entry into SBC/Ameritech's region. In addition, there will be vigorous competition from the IXCs and numerous CLECs.

## II. THE CHALLENGES TO THE BENEFITS OF THE MERGER ARE WITHOUT MERIT

### A. The Merger Opponents' Attacks On The National-Local And Global Strategy Are Not Credible

In the new marketplace, our major competitors are scrambling to do precisely what SBC and Ameritech propose to do: compete nationwide and around the globe.<sup>44</sup> But they recognize that if they are able to beat SBC and Ameritech in front of regulators, they will not have to beat us in the market. Accordingly, they argue to the Commission that: (1) SBC/Ameritech's National-Local Strategy is not for real; and (2) even if the strategy is for real, the merger is not needed to implement it. Neither of these contentions has merit.

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<sup>44</sup> Our competitors' public statements regarding their ability to offer packaged services for multi-location customers leave no doubt on this score. AT&T stated upon merging with TCG that "TCG's services enhance AT&T's ability to provide integrated end-to-end services for large and small business customers. AT&T will offer single points of contact for local and long-distance services and customer care, enterprise solutions for businesses with multiple locations, volume discounts across services and an integrated bill for customers who want it." See AT&T Press Release, AT&T Completes TCG Merger; TCG Now Core of AT&T Local Services Network Unit (July 23, 1998), available at <<http://www.att.com/press/0798/980723.chb.htm>> (visited Oct. 31, 1998); see also Kahan Reply Aff. ¶¶ 7-8 (AT&T advertisements); Carlton Reply Aff. ¶ 11. Sprint also has made similar statements, touting its new ION service as allowing it to "handle all of a company's communications needs . . . voice, long distance, video, Internet, data transfer . . . through a single integrated connection at blazing speeds." See Sprint Press Release, Sprint Ion Announcement — Remarks Delivered by William T. Esrey (June 2, 1998), available at <<http://www.sprint.com/sprint/press/releases/9806/9806020589.html>> (visited Oct. 31, 1998). Approximately 2 weeks later Sprint announced that it had "secured key network access agreements with Southwestern Bell . . . and Ameritech," among others, which will enable it to "deliver unprecedented communications capabilities to large businesses in Chicago . . . Dallas, Houston and Kansas City." Sprint Press Release, Sprint Announces Network Agreements with Local Phone Companies for Initial Rollout of Revolutionary New Services (June 17, 1998), available at <<http://www.sprint.com/sprint/press/releases/9806/9806170591.html>> (visited Nov. 13, 1998); see also Kahan Reply Aff. ¶¶ 5-6 (citing third party evaluations of MCI WorldCom); Carlton Reply Aff. ¶¶ 8-10, 12-13.

1. **SBC And Ameritech Are Committed To  
Implementing The National-Local And Global Strategy**

A number of our opponents, AT&T and Sprint most notable among them, suggest that our National-Local Strategy is a mere ruse, concocted for the Commission.<sup>45</sup> They are wrong. SBC did not invent the National-Local Strategy to justify merging with Ameritech; it was the strategy that came first, and the plan to merge that followed.<sup>46</sup>

SBC's Board of Directors did not approve the merger as an end in itself. The Board approved it as necessary for the company's pursuit of its National-Local Strategy. The merger will indeed allow us to realize significant in-region savings unrelated to the National-Local Strategy, but the aggregate value of those savings approximately equals the premium to be paid to Ameritech's shareholders when they exchange their stock for new SBC stock.<sup>47</sup> The merger's value to SBC's current shareholders thus lies entirely in the expected benefits of the National-Local Strategy. SBC's Board of Directors approved the merger on precisely that basis — because it would make possible the ambitious expansion out-of-region that SBC could not undertake alone.<sup>48</sup>

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<sup>45</sup> See AT&T at iv-v; Sprint at 3, 49; Consumer Federation of America/Consumers Union at 23; MCI WorldCom at iii-iv, Baseman/Kelley Decl. ¶¶ 12, 67-73; Consumer Coalition at 27-28.

<sup>46</sup> Kahan Aff. ¶¶ 82-85; Kahan Reply Aff. ¶ 12. As Edward Whitacre, SBC's Chairman and Chief Executive Officer, stated in testimony before the Senate Judiciary Subcommittee on Antitrust, Business Rights and Competition shortly after the merger was announced, "[t]he centerpiece and critical component of this 'National-Local' strategy is our merger with Ameritech" because that merger "will enable SBC to implement [the] 'National-Local' strategy." Prepared Testimony of Edward E. Whitacre, Jr., Chairman and Chief Executive Officer, SBC Communications Inc., Before the Senate Judiciary Committee, Antitrust, Business Rights and Competition Subcommittee (May 19, 1998) (Consolidation in the Telephone Industry), available at 1998 WL 11518346.

<sup>47</sup> Public Interest Statement at 42-49; Kahan Aff. ¶ 83.

<sup>48</sup> See Kahan Aff. ¶¶ 83-85.

Since the merger was announced, SBC and Ameritech have repeatedly affirmed their commitment to this plan to Congress, the Commission, the Department of Justice, the Securities and Exchange Commission,<sup>49</sup> state regulators, shareholders, analysts and customers.<sup>50</sup> We have publicly committed to devote enormous resources to it.<sup>51</sup> We have emphasized that in light of how fast the market is unfolding, our National-Local Strategy must be implemented quickly. As the Commission has recognized in the past, most recently in approving the MCI/WorldCom merger, the multi-billion dollar commitments of major, publicly-held, regulated companies should be credited.<sup>52</sup>

As a practical matter, the merger will not enable either company to follow its major customers unless it becomes the foundation of the National-Local and global strategy. Our business managers have concluded, and our experts agree, that those customers demand “near national” coverage — which is to say, a supplier able to serve at least 70-80% of their needs.<sup>53</sup>

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<sup>49</sup> SBC has filed with the Securities and Exchange Commission, for example, a registration statement under the Securities Act of 1933, as amended, and a proxy statement under the Securities Exchange Act of 1934, as amended. SBC Communications, Inc., SEC Form S-4 (filed Oct. 15, 1998) (containing registration statement and proxy statement). Under the Securities Act of 1933, the matters set forth in such a registration statement must be truthful. 15 U.S.C. § 77k.

<sup>50</sup> Carlton Aff. ¶ 7; Kahan Reply Aff. ¶¶ 11-12.

<sup>51</sup> Carlton Aff. ¶ 7; Kahan Aff. ¶¶ 57-58.

<sup>52</sup> Thus, in MCI/WorldCom, the Commission declined to accept claims by opponents that the merged entity would abandon the residential market, in light of commitments from senior management that the merged company would remain committed to offering residential service. See In re Application of WorldCom, Inc. and MCI Communications Corp. for Transfer of Control of MCI Communications Corp. to WorldCom, Inc., Memorandum Opinion and Order, CC Docket No. 97-211, FCC 98-225, 1998 WL 611053, ¶¶ 188-93 (released Sept. 14, 1998) (“MCI/WorldCom”). The statements of SBC’s and Ameritech’s senior management regarding this strategy in sworn affidavits contrast markedly with AT&T’s filings in connection with its merger with TCG and its proposed merger with TCI, which did not include such affidavits. See also Carlton Reply Aff. ¶¶ 48-50.

<sup>53</sup> Public Interest Statement at 14; Kahan Aff. ¶ 48; Kahan Reply Aff. ¶ 16.

AT&T and MCI WorldCom have been assembling the capacity to do just that.<sup>54</sup> Our major customers back that same conclusion in comments they have submitted to the Commission.<sup>55</sup> Standing alone, a company that serves only the thirteen-state service area of the combined SBC and Ameritech will not begin to meet their needs.<sup>56</sup>

All our major competitors have been saying exactly the same thing to the Commission (when they seek approval of their own mergers), to analysts, and to anyone else who will listen.<sup>57</sup> AT&T's decisions to merge with TCG and TCI, and to partner with BT, were impelled by the

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<sup>54</sup> Grubman Reply Aff. ¶ 3.

<sup>55</sup> See note 4 above. For example, the comments of Emerson Electric Co. (a Fortune 150 company) note that the merger would create a company that could be considered a "preferred supplier," but that "[w]ithout the merger they [SBC and Ameritech] are to us both 'niche' players, with neither one being of high impact to Emerson."

<sup>56</sup> See Carlton Aff. ¶¶ 27-28. As Dr. Carlton explains, at present the two companies individually offer 70-80%, or "near national," coverage to only 24 percent of the Fortune 500 companies headquartered in their territories; a merger which did not include the expansion contemplated by the National-Local Strategy would increase that number only to 33 percent. Under the National-Local Strategy, the percentage rises dramatically to 81 percent.

<sup>57</sup> See note 44 above; see also, e.g., AT&T Press Release, AT&T Completes TCG Merger: TCG Now Core of AT&T Local Services Network Unit (July 23, 1998), available at <<http://www.att.com/press/0798/980723.chb.html>> (visited Nov. 4, 1998) ("TCG's services enhance AT&T's ability to provide integrated end-to-end services for large and small business customers. AT&T will offer single points of contact for local and long-distance services and customer care, enterprise solutions for businesses with multiple locations, volume discounts across services and an integrated bill for customers who want it."); MCI WorldCom Press Release, WorldCom Completes Merger with MCI (Sept. 14, 1998), available at <[http://www.mciworldcom.com/about\\_worldcom/press\\_release/archive/1998/980914.shtml](http://www.mciworldcom.com/about_worldcom/press_release/archive/1998/980914.shtml)> (visited Nov. 4, 1998) (In announcing the merger MCI WorldCom stated that "[t]he merger creates a new era communications company providing customers around the world with a full set of data, Internet, local and international communications services over its own seamless 'local-to-global-to-local' network."); Sprint Press Release, Sprint ION Announcement — Remarks Delivered by William T. Esrey (June 2, 1998), available at <<http://www.sprint.com/sprint/press/releases/9806/9806020589.html>> (visited Nov. 4, 1998) ("ION can handle all of a company's communications needs . . . voice, long distance, video, Internet, data transfer . . . through a single integrated connection at blazing speeds.").

same assessment of these market imperatives. So were the decisions that culminated in the creation of MCI/WorldCom/Brooks Fiber/MFS/UUNet.<sup>58</sup> So were those that brought about the Sprint/Deutsche Telekom/France Telecom alliance and Sprint's plans for a national "ION" service. So were those that led to Bell Atlantic's proposed merger with GTE. Twelve-page inserts in The Wall Street Journal and extensive television advertisements now tout MCI WorldCom as the only company that can offer large business customers a complete package of local, national and international capabilities.<sup>59</sup>

Our plans to compete for the same customers in the same national and global arena are every bit as serious as theirs.

## **2. The Merger And The Implementation Of The National-Local And Global Strategy Are Inextricably Linked**

Several commenters argue that SBC and Ameritech could each implement a National-Local Strategy on its own. But as we explained in the Public Interest Statement: (a) neither company has a sufficient customer base to support such an expansion on its own; (b) neither company standing alone has enough experienced managers to commence nationwide operations, especially not on such a rapid schedule, while continuing to fulfill service and regulatory

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<sup>58</sup> Indeed, the Commission approved the MCI/WorldCom merger in part because the combination responded to such pressures. See MCI/WorldCom ¶ 199 ("We also find persuasive Applicants' assertions that the merger will allow them to service multi-location customers over their own networks, and that this will enable such customers to receive higher quality and more reliable services than each company is currently able to offer separately.").

<sup>59</sup> See MCI WorldCom 12-page advertising supplement, Wall St. J., Oct. 1, 1998, at R4 (Kahan Reply Aff., Ex. 1) (stating that "you can buy every communication service your business requires from one company"); see also Kahan Reply Aff. ¶¶ 8-10 for further information regarding the plans of AT&T and Sprint; Carlton Reply Aff. ¶¶ 8-17 (explaining how AT&T, MCI WorldCom and Sprint are pursuing such strategies and describing consumer demand for such packages); Gilbert/Harris Reply Aff. ¶¶ 7-8, 37-42.

obligations in-region; (c) neither company has sufficient resources to go global on its own; and (d) neither company acting alone could responsibly incur the risk and earnings dilution that would result from the implementation of this strategy.

**a.      The Merger Is Necessary To Create A Sufficient Customer Base To Follow Into Other Markets**

The opportunity underlying our National-Local Strategy, and its economic viability, depends in the first instance on maintaining relationships with large and mid-size customers wherever they do business, out-of-region and around the globe. But there have to be enough customers to follow. No company can afford to deploy new switches and networks in New York, Miami or Denver to serve a single customer, however large. Facilities-based competition requires a sufficiently broad base of customer relationships to support large capital investments.<sup>60</sup>

Of course we will compete for new customers, but it is both rational and prudent for SBC and Ameritech to count first on expanding geographically to serve customers with whom we have an existing relationship.<sup>61</sup> The larger the base of existing business customers to follow, the faster we can expand geographically. And the faster we expand in that dimension, the faster we will extend competition into small business and residential markets outside our region.

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<sup>60</sup> Kahan Aff. ¶¶ 5, 14.

<sup>61</sup> The merger application of Bell Atlantic and GTE confirms the need for such a substantial customer base, stating: "Bell Atlantic's business customers from the Northeast provide a legion of anchor customers — through those businesses' branch offices — in many cities across the Nation." BA/GTE Application for Transfer of Control, Public Interest Statement at 7. Charles R. Lee, Chairman and CEO of GTE, has publicly stated that expanding out-of-region requires existing "business customers to build the network, to build the capability, [and] to build the scale" necessary to succeed. In re FCC Merger En Banc, Transcript, at 79 (Oct. 22, 1998).

AT&T incorrectly attributes to SBC and Ameritech the claim that we will not pursue a National-Local Strategy unless 50% of the Fortune 500 companies are headquartered in-region, and then it proceeds to challenge this “arbitrary figure.”<sup>62</sup> But neither SBC nor Ameritech has made any such claim. Each company simply concluded that it lacked a sufficiently large customer base to go national on its own, but that the combined customer base would suffice.<sup>63</sup>

For its part, Sprint argues that the location of a customer’s headquarters is not the issue, that substantial in-region operations are enough.<sup>64</sup> Of course that is true. But counting headquarters is a reasonable shorthand for determining where major customers are located. Companies with in-region headquarters are the ones with which SBC and Ameritech are most likely to have established business relationships.<sup>65</sup> Sprint does not challenge the basic business fact that a substantial customer base is an essential predicate to going national and global.

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<sup>62</sup> AT&T at 39.

<sup>63</sup> Kahan Aff. ¶¶ 40-41; see also Carlton Reply Aff. ¶ 42.

<sup>64</sup> Sprint, Besen Decl. at 9-10.

<sup>65</sup> Kahan Reply Aff. ¶ 27. Sprint also complains that “SBC has failed to establish any link . . . between being located in the same region as the headquarters of a customer and obtaining that customer’s telecommunications business.” Sprint, Besen Decl. at 10. It is unclear what this means, but, to the extent it suggests that having a base of current customers to follow is not important because a pre-existing customer relationship in-region does not increase the chances of obtaining the customer’s out-of-region business, the suggestion does not make sense. The fact that a customer already receives a large amount of services from the Applicants obviously increases the chance that it will buy from them out-of-region as well, both because doing so fulfills the need to deal with a principal supplier and because the customer is more likely to purchase services from a familiar supplier which has already proven itself capable. As noted above at note 4, numerous customer letters attest to this fact. Indeed, the Signoff Affidavit, on which Sprint relies to rebut the Applicants’ “follow the customer” strategy, concedes that “the existence of standing business relationships can be helpful in obtaining additional business from a customer.” Sprint, Signoff Aff. ¶ 17.



Sprint's partnership with Deutsche Telekom and France Telecom is based on the same logic of assembling a critical, threshold mass of existing customers and facilities.

A number of opponents claim that, absent the merger, SBC and Ameritech each would separately expand out-of-region, albeit on a more limited scale, and that this limited strategy would be an equally effective means of obtaining a national footprint.<sup>66</sup> But neither Applicant had plans for an incremental limited out-of-region expansion; to the contrary, both had firmly concluded that a piecemeal expansion made no business sense.<sup>67</sup> It would be perverse for the Commission to reject a real and concrete plan to compete in favor of a more limited, hypothetical approach sketched out by companies whose paramount interest is to limit competition, not promote it.<sup>68</sup> Given our competitors' own recognition that it is essential to have a truly national

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<sup>66</sup> See AT&T at 41; Consumer Coalition, Baldwin & Golding Aff. ¶ 52; MCI WorldCom at 30, Baseman-Kelly Decl. ¶ 68; McLeodUSA at 7; CoreComm Newco at 15-16; Focal Communications at 11-12; Hyperion Telecomm. at 10-11; Level 3 Communications at 10; Telecomm. Resellers Ass'n at 8. Sprint argues that, if the merger is not allowed, SBC and Ameritech will expand out-of-region, but since they will "obtain[] fewer customers" they can deploy fewer of their own facilities, and instead utilize existing facilities. Besen Decl. at 12-14. No doubt Sprint would like its competitors to "obtain fewer customers," but that is not in the public interest, and the Applicants try to base their business plans on obtaining more, not fewer, customers. AT&T tries to make its attacks on the Applicants' business plan more palatable by stating that the Commission should require a consideration of allegedly "less anticompetitive alternatives." AT&T at 43-44. There is nothing anticompetitive about our plan to compete in 30 new markets. It is AT&T's suggestion — that the Commission, rather than the marketplace, should pick the winners and losers — that is anticompetitive.

<sup>67</sup> Public Interest Statement at 58-59, 65-73; Sigman Aff. passim; Osland Aff. passim; Weller Aff. ¶¶ 31-36; Carlton Reply Aff. ¶¶ 20-26, 33. See also pages 45-53 below.

<sup>68</sup> This conclusion applies both to the claim that the Commission should prefer a 15-market approach over a 30-market approach (even if that were feasible from a business perspective) and to Sprint's suggestion that a more limited approach would be preferable because SBC and Ameritech would likely install fewer facilities of their own. It is clearly not in the public interest for the Commission to discourage facilities-based entry. See MCI WorldCom at 11; cf. Carlton Reply Aff. ¶¶ 26-28, 40-42.

footprint in order to compete, their arguments make clear only that they want the national market for themselves.<sup>69</sup>

**b.      Neither SBC Nor Ameritech Has Sufficient Personnel  
To Manage The National-Local And Global Strategy**

Neither SBC nor Ameritech alone has a sufficiently large base of skilled management personnel to undertake an expansion of this scope on top of its in-region operations and obligations — certainly not on any reasonable schedule.<sup>70</sup> Even the merged company will have to hire, train and deploy thousands of new employees dispersed over 30 new markets.<sup>71</sup>

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<sup>69</sup> Sprint claims that large businesses sometimes choose to divide their telecommunications purchases between different suppliers, so that the Applicants' claim that they need to offer themselves as a sole source of supply is suspect. Sprint at 49-50, Besen Decl. at 10-22, Hayes Decl. at 4, and Signoff Aff. ¶ 11. See also McLeodUSA at 7-8. Sprint's claims, however, are carefully hedged. For example, the Signoff Affidavit, on which Sprint relies in support of its claim that some large customers want multiple suppliers, concedes that "[o]f course, some buyers do want sole source contracts," and it "agree[s] with Mr. Kahan that one-stop shopping will in the future become more important to customers." Sprint, Signoff. Aff. ¶¶ 14, 16. While AT&T also challenges the Applicants' belief that they need to be able to provide 70-80% coverage for their largest customers, its sole argument is that the Applicants failed to provide more detail about the four instances in which SBC could not compete for the business of three major companies (J.C. Penney, Kerr-McGee and ARCO) because of its limited geographic coverage. AT&T at 40. Although AT&T complains that "SBC did not even respond to the RFPs issued by two of the Companies," that is precisely the point; SBC did not respond because it could not meet the customers' requirements due to its geographic restrictions. Carlton Aff. ¶ 19. Sprint understands this; it concedes that the "instances in which SBC was unable to respond to RFPs due to its limited geographic coverage may explain why SBC must provide service in many markets. . . ." Sprint, Besen Decl. at 14.

<sup>70</sup> See Kahan Aff. ¶¶ 77-78; Kahan Reply Aff. ¶¶ 41-42; Weller Aff. ¶ 33. The scope of this problem is discussed in detail by Dr. Carlton; as his affidavit shows, if SBC attempted to undertake the National-Local Strategy alone it would require 16% of its current managerial work force. The corresponding figure for Ameritech is 36%. By contrast, the plan would require the equivalent of only 8% of the managerial work force of the combined companies. See Carlton Aff. ¶¶ 33-34 Table 2.

<sup>71</sup> Kahan Reply Aff. ¶ 41. Some of the claims of our competitors that this is an easy task border on the ludicrous. For example, e.spire claims that it "itself has built 32 state-of-the-art fiber optic networks in the past five years" so it is "inconceivable that neither SBC nor Ameritech could accomplish this on their own." e.spire Communications at 12. These "state-of-

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AT&T casually declares that SBC/Ameritech will not draw on any current management personnel and that the new out-of-region operations will depend entirely on new hires.<sup>72</sup> This is not true. SBC/Ameritech will employ over 8,000 people to implement the plan. Like many other firms, SBC has a policy of staffing new ventures with substantial numbers of current employees, especially current managers with demonstrated skills and ability.<sup>73</sup> Efficiencies from the merger will free up a significant number of experienced managers, and they will take charge of our out-of-region expansion.

**c.     Securing A Global Footprint Is Critical**

AT&T alone questions the global aspects of the merger. AT&T asserts that SBC's approximately \$3 billion in foreign investments and Ameritech's foreign investments, valued at approximately \$8 billion, already "position" each company to compete alone in the global

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the-art" networks, however, are often quite small. e.spire's Amarillo, Texas and Baton Rouge, Louisiana networks consist of only one route mile, and half of all of e.spire's networks are five route miles or less. See New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report, Carrier Profile: American Communication Services, Inc. at 15 (1998) (e.spire was formerly named American Communications Services, Inc.). In fact, the National-Local Strategy will require more employees than any other CLEC operation to date. Kahan Reply Aff. ¶ 42.

<sup>72</sup> See AT&T at 42-43. Other opponents simply argue that SBC and Ameritech already have substantial managerial reserves; see, e.g., McLeodUSA at 6-7, 42-43; CoreComm Newco at 15; Focal Communications at 9; Hyperion Telecomm. at 9-10; Level 3 Communications at 8-9; MCI WorldCom, Baseman-Kelley Decl. ¶ 80 n.41. Even on a combined basis, these managers are now responsible for only 20 of the 50 largest MSAs, while the National-Local Strategy covers 50 of the largest. Neither company acting alone can shoulder that expansion burden. Ironically, the concern of the Illinois consumer and government intervenors was exactly the opposite of AT&T's — that many existing employees will be used to support the National-Local Strategy, taking talented workers away from Ameritech's Illinois network. See In re SBC Communications, Docket No. 98-0555, Direct Testimony of Charlotte F. Terkeurst, GCI Ex. 2.0 (Ill. Commerce Comm'n Oct. 28, 1998). Clearly, that concern would be possible only if (i) they believe the National-Local Strategy will be implemented, and (ii) they believe it will require substantial resources to implement. Regulators should not be determining such staffing matters.

<sup>73</sup> Kahan Aff. ¶ 78; Carlton Aff. ¶ 32; Kahan Reply Aff. ¶ 41.

market.<sup>74</sup> AT&T purports to complete its analysis of the global logic of this merger by counting the countries in which SBC and Ameritech have already each made investments.

SBC currently holds minority direct investments in foreign telecommunications companies in ten countries in Europe, and Ameritech has investments in four such companies.<sup>75</sup> The two companies together have direct and indirect telecom and non-telecom interests in over 40 countries. Those holdings and investments do indeed offer a good springboard for global expansion. They offer a combined SBC/Ameritech some reasonable hope of being able to compete seriously against the AT&T/BT global venture, which will serve 237 countries and territories, over a backbone managed network of 6000 nodes in 52 countries.<sup>76</sup>

AT&T sings a very different tune when discussing its own — far larger — alliance with BT.<sup>77</sup> That venture will “accelerate efforts to bring accounting rates down, lowering prices,

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<sup>74</sup> See AT&T at 45-46.

<sup>75</sup> See SBC, 1997 Annual Report at 8. AT&T’s citation to “more than 40 countries” in Ameritech’s 1997 10-K to support its claim that Ameritech is already “positioned” to be a global competitor is an “apples to oranges” comparison. AT&T at 44-45. The reference to 40 countries in Ameritech’s 10-K reflects Ameritech’s direct and indirect telecom and non-telecom investments. Ameritech holds direct telecom investments in four countries — Hungary, Belgium, Norway and Denmark. See Kahan Aff. ¶ 66; Ameritech, International Profile, available at <<http://www.ameritech.com/corporate/international>> (visited Nov. 8, 1998). Although these direct investments account for a small percentage of countries where Ameritech holds combined telecom and non-telecom investments, they account for 98 percent of Ameritech’s international investments.

<sup>76</sup> Sir Peter Bonfield, CEO, BT, Speech (July 26, 1998), available at <<http://www.att-bt-globalventure.com/news/bonfield.doc>> (visited Nov. 5, 1998). The AT&T/BT global venture will also include “undersea cable systems, cable stations, and earth stations throughout the world, as well as customer service and network operations/management centers in the US, Europe, and Asia Pacific regions.” Id.

<sup>77</sup> BT alone has a market capitalization in excess of £ 50 billion and foreign operations in more than 30 countries worldwide, with joint ventures in Ireland, France, Switzerland, Spain, Germany, Italy, the Netherlands, Sweden, New Zealand, Japan, Singapore, Malaysia and India. See AT&T and BT, BT: Historical Perspective, available at <[http://www.att-bt-globalventure.com/about/history\\_bt.html](http://www.att-bt-globalventure.com/about/history_bt.html)> (visited Oct. 22, 1998); BT, Daily Share Price

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stimulating international calling and creating new businesses and new jobs.”<sup>78</sup> That venture will “significantly reduc[e] costs and improv[e] quality to customers worldwide.”<sup>79</sup> That venture “can help accelerate competition around the globe . . . .” That venture will “help to reduce the price of international calls.”<sup>80</sup> Perhaps that venture will indeed do all those good things. But it

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(Nov. 12, 1998) available at <<http://www.hemscott.com/EQUITIES/company/price/pri01281.htm>> (visited Nov. 13, 1998). Even before the AT&T/BT combination, BT had entered into alliances with French, German, Italian, Dutch, Spanish, Swedish and Swiss firms, acquired an equity interest in one of the largest New Zealand telecommunications companies and, most significantly, established (with MCI, whose interest it will now purchase), Concert, an international consortium intended to offer multinational customers telecommunications services in 50 countries and over 800 cities. Concert Press Release, About Concert: Advanced Communications, available at <<http://www.concert.com/ab.asp>> (visited Nov. 6, 1998); BT, Annual Report and Accounts 1998, available at <<http://www.bt.com/world/corpfin/shareholder>> (visited Nov. 6, 1998). AT&T had already established World Partners, an alliance with Singapore Telecom, Kokusai Denshin Denwa Co. (Japan), and Unisource, with non-equity participants including Indosat (India), Telekom Malaysia, Communications Authority of Thailand, CHT-1 (Taiwan), Telebras (Brazil), Bezeq (Israel), Telstra OTC (Australia), Korea Telecom, Telecom New Zealand, Hong Kong Telecom and Unitel (Canada) providing telecommunications services to customers in thirty-three countries. Telstra/WorldPartners Co. Press Release, Telstra Signs MOU for Future Stake in World Partners (July 28, 1997), available at <<http://www.att.com.au/press/yr97/jul97/97072801.htm>> (visited Oct. 31, 1998). In addition, Uniworld is a joint venture between AT&T and Unisource, a joint venture among Telia (Sweden), Swiss Telecom and PTT Telecom (Netherlands). See Kristi Essick, Uniworld Gets Go-Ahead from European Commission, InfoWorld, Nov. 10, 1997, available at 1997 WL 14196226.

<sup>78</sup> AT&T/BT Press Release, The Global Venture of AT&T and BT to Form \$10 Billion Global Venture to Serve Customers Around the World (July 26, 1998), available at <<http://www.att-bt-globalventure.com/news/index.html>> (visited Oct. 22, 1998). Just last week, AT&T announced that it is increasing its efforts to market service through its joint venture with BT, a decision that press reports described as a reaction to MCI WorldCom’s capabilities. Rebecca Blumenstein, AT&T Plans to Aggressively Market BT’s Concert Communications Service, Wall St. J., Nov. 11, 1998, at B16.

<sup>79</sup> AT&T/BT Press Release, The Global Venture of AT&T and BT, Questions and Answers (July 26, 1998), available at <<http://www.att-bt-globalventure.com/qa/index.html>> (visited Oct. 22, 1998).

<sup>80</sup> AT&T/BT Press Release, The Global Venture of AT&T and BT, Questions and Answers (July 26, 1998), available at <<http://www.att-bt-globalventure.com/qa/index.html>> (visited Oct. 22, 1998). MCI WorldCom also makes similar claims. See, e.g., MCI WorldCom

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will do them only if AT&T/BT faces effective competition in global markets. Effective competition on that scale is not going to come from small companies like e.spire, one of our critics before the Commission. It is wrong to suggest that standing alone, a company with current global investments in the \$3-8 billion range already has all it could possibly need<sup>81</sup> in preparing to do battle against AT&T/BT, MCI WorldCom, Nippon Telegraph & Telephone ("NTT") or Sprint/Deutsche Telekom/France Telecom in what will soon be a \$1 trillion global market.<sup>82</sup>

Every other major company that aspires to compete globally is entering into comparable alliances. Sprint, France Telecom and Deutsche Telekom have formed Global One, a joint venture with an all-digital fiber optic network in over 50 countries and 1,200 points of presence.<sup>83</sup> NTT recently invested \$100 million in Teligent, a CLEC that is building a digital

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September two-page advertisement, Wall St. J., Sept. 16, 1998, at A12-A13 ("Merging our networks and unique capabilities has allowed MCI WorldCom to . . . save everyone time and money. As will the sheer economies of scale that always occur when you consolidate your communications needs.").

<sup>81</sup> AT&T's gratuitous suggestion that SBC and Ameritech do not need to merge to compete globally because there are "foreign carriers" that they can partner with is irrelevant and disingenuous from a company that has partnered with dominant carriers all around the globe. See AT&T at 44-45. It is not the Commission's role to evaluate possible alternatives and decide that some other business plan might be "better" than an applicant's actual plan.

<sup>82</sup> See Public Interest Statement at 35-36. Moreover, as SBC and Ameritech pointed out in their Applications, the 1996 estimated revenues in the global telecommunications market were approximately \$700 billion. AT&T estimates that by 2001 the global telecommunications market "will have grown to over \$1000 billion." AT&T and BT, Background to the Venture, available at <<http://www.att-bt-globalventure.com/about/index.html>> (visited Oct. 31, 1998). In 1998, the combined international telecom revenues of SBC and Ameritech represents less than 1 percent of that market and an even smaller market share based on AT&T's estimates for the future. The numbers alone disprove AT&T's argument.

<sup>83</sup> See Global One, Overview, available at <<http://www.global-one.net/en/map/presence/page1.html>> (visited Nov. 11, 1998).